

Greasing the Wheels of Capital Flow

New Online Information System for Direct Investment Foreign Exchange Business

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The State Administration of Foreign Exchange (SAFE) has decided to popularise a nationwide online Information System for Direct Investment Foreign Exchange Business ("System") with effect from May 2008. The decision complies with the requirements of the State Council which wants to further transform government functions, establish a service-oriented government and promote e-government administration.

Purpose of the System

Their purpose is to develop direct investment within this new context and accelerate the reform of direct investment's foreign exchange administration.

The perceived advantages of the System are:

- To raise management efficiency
- To improve service levels
- To provide statistical, monitoring, analytical and pre-warning capabilities for direct investment
- To facilitate an increase in investment

The System, an information carrier with an electronic identity-recognised program, will completely change the method of government administration in the field of foreign exchange management: It will establish a network of data exchange among the SAFE, nominated banks, foreign investment enterprises and accounting firms. After its implementation, participating enterprises can enjoy improved services when applying to SAFE for relevant transactions through the Internet.

At the same time, SAFE will phase out the use of paper-based vouchers and adopt IC cards as replacements for paper-based foreign exchange registration certificates. This will ensure that transaction registrations, operations and information transmissions are conducted in a timely, reliable and secure way, thus improving statistics' compilation and the monitoring of cross-border capital under direct investment items.

How the System Works

There are four major modules to the System:

1. Foreign Investment
2. Overseas Investment
3. Annual Inspections
4. Statistical Analysis

For the time being only the foreign direct investment module will be implemented nationwide.

In order to collect relevant data for the implementation of the new System and to issue the IC card, SAFE needs to compile Foreign Investment Enterprises' (FIE) basic information, as well as their foreign exchange transactions during the foreign exchange annual examination (by foreign investment enterprises) including their foreign exchange income and expenses as at the end of 2007.

Enterprises participating in the annual examination should complete the following form: The Registration Forms of Foreign Investment Enterprises Joint Annual Inspection (foreign exchange part) and Foreign Exchange Transaction Information in 2008 ("Registration Forms").

The following information is required:

- Basic background information of FIE
- Status of paid-in capital
- Structure of equity interest (for both Chinese and foreign investors)
- Status of capital contribution by foreign investor
- Information about unpaid capital or portion pending capital verification by foreign investor (contribution in-kind, by intangible asset, etc.)
- Transactions involving foreign exchange for the period since 1 January 2008
- Information on capital reduction for foreign investor
- Information on foreign currency capital account opened
- Information on foreign currency capital account in use
- Information on other foreign currency accounts (non-capital)
- Foreign exchange statement (payment and receipts) for financial year 2007
- Information and status of capital verification (for foreign investor)
- Balance sheet as at 31 December 2007
- Income statement for financial year 2007
- Information about undistributed profits, appropriation to reserves and distributions to foreign investors (payment overseas, reinvestment, etc.)

Keeping it Simple

Local SAFE are expected to complete the collection of this information and issue the IC card during the foreign exchange annual examination period. In between the launch date and full implementation of the IC card ("transitional period"), the old and new foreign exchange management systems will run concurrently. Those enterprises that have already applied for and obtained the IC Card should use the online System, whilst those with only the paper-based foreign exchange registration certificate should conduct all their foreign exchange transactions using existing policies and procedure. However, after the transitional period, all FIEs must complete their foreign exchange transactions via the new System using their IC card. The Registration Forms can be downloaded from SAFE's website at <http://www.safesvc.gov.cn>.

Items to pay attention to before filling in the Registration Forms:

1. Paid-in capital being decreased must be filled in only after the required capital verification procedure is completed. If the reduction is only involving an obligation in capital injection, but said capital has not been contributed, then it is only necessary to change the previous foreign exchange registration.
2. Capital received or increased must be filled in only after completing the capital verification procedure.
3. Enterprises should, prior to swapping to the IC Card foreign exchange registration certification, complete the relevant transactions based on the approval documents that are still in force. Otherwise, previous approval documents will become invalid automatically even if they have not expired. Enterprises concerned then have to re-apply for the approval of SAFE and conduct said transactions under the new system.

Items to pay attention to while filling in the Registration Forms:

1. Enterprises must gather all the information and data for completed transactions which is filled out on the EXCEL forms, then print the forms, sign and stamp them with a chop. Ensure that the content of both the EXCEL forms and the signed and chopped paper forms are the same.
2. Foreign exchange income and expenses, balance sheet and income statement must be audited by an accounting firm.
3. Additional documents required by SAFE include:
 - Audit report for foreign exchange income and expenses
 - Audit report for financial statements
 - Foreign exchange registration certificate
 - Copy of latest approval certificate
 - Copy of passport for non-resident individual shareholder
 - Report and materials for annual examination

All information and documents, including the electronic version of Registration Forms (in EXCEL format), should be submitted to SAFE by the end of June 2008. However, the actual deadline itself will be determined by local SAFE offices.

The IC Card registration certificate will be issued to enterprises after SAFE has verified the materials submitted, in addition to completing the foreign exchange annual examination. Once the new system is in use, all foreign exchange transactions will be conducted using the IC Card foreign exchange registration certificate. The paper-based foreign exchange registration certificate will then become invalid and the information submitted to SAFE will be updated in future transactions.

For newly approved FIEs, the IC Card foreign exchange registration certificate will be issued directly, upon online completion of registration and foreign exchange transaction through the new system.

Existing enterprises that fail to submit the required information and obtain SAFE's approval during the transition period and are therefore without the IC Card foreign exchange registration certificate, will not be allowed to apply for approval for any new foreign exchange transactions in an attempt to ensure consistency of information between the parties concerned.